


# Political institutions and policy outcomes : effects of presidential vetoes on budget making

著者	Kawanaka Takeshi
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**Political Institutions and Policy  
Outcomes: Effects of Presidential  
Veto on Budget Making**

Takeshi KAWANAKA\*

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**Abstract**

The article examines how the power distribution between the executive and the legislature under the Presidential system affects policy outcomes. We focus in particular on the presidential veto, both package and partial. Using a simple game theory model, we show that the presidential partial veto generally yields a result in favor of the President, but that such effects vary depending on the reversion points of the package veto and the Congress's possible use of sanctions against the President. The effects of the Presidential partial veto diminish if the reversion point meets certain conditions, or if the Congress has no power to impose sufficient sanctions on the President when the President revises the outcome ex-post. To clarify and explain the model, we present the case of budget making in the Philippines between 1994 and 2008. In the Philippines, the presidential partial veto has been bringing expenditure programs closer to the President's ideal point within what may be called the Congress's indifference curve. The Congress, however, has not always passed budget bills and from time to time has carried over the previous year's budget, in years when the budget deficit increased. This is the situation that the policy makers cannot retrieve from the reversion point.

**Keywords:** Institutions, Democracy, Policy, Budget, the Philippines

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\* Senior Research Fellow, Area Studies Center, IDE (kawanaka@ide.go.jp)

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**INSTITUTE OF DEVELOPING ECONOMIES (IDE), JETRO**  
**3-2-2, WAKABA, MIHAMA-KU, CHIBA-SHI**  
**CHIBA 261-8545, JAPAN**

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## I. INTRODUCTION

One of the classical and most important issues concerning democratic institutions is how such institutions affect policy outcomes. Essentially, this issue is about identifying the causality between institutions and policy. In particular, political scientists have been discussing how differences among institutions cause variations in policy outcomes, and what role institutions play in formulating policy<sup>1</sup>.

This article examines how the institutional distribution of powers between the executive and the legislature in the Presidential system affects policy outcomes. Especially, we take a close look at the effects of the Presidential partial veto, and check whether or not partial veto power strengthens the President's position<sup>2</sup>. As regards policy, we have chosen budget making as the topic for our discussion.

Generally speaking, it is thought that if a partial veto is granted to the President in addition to a package veto, the President can obtain a policy outcome closer to his or her preferred objective. Here, "package veto" means the power to nullify an entire bill, while "partial veto" means the power to nullify only the items which the President wishes to eliminate. If the partial veto is exercised, the bill is enacted except for the vetoed items. Baldez and Carey (1999, 2001), using a spatial model, show the effects of the Presidential partial veto in Chilean budget making. They argue that by resorting to a partial veto, the President can achieve a policy outcome closer to his preferred objective, basically because the use of a partial veto eliminates different policy dimensions that

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<sup>1</sup> Persson and Tabellini (2003) offer a representative empirical examination of the effects of political institutions on fiscal policy. Acemoglu (2005) has made a significant critique of this work with respect to its methodology.

<sup>2</sup> Aside from the Philippines, the Presidential partial veto can be found in several Latin American countries. The list in Shugart and Carey (1992, p.155) shows that the constitutions of Brazil, Chile, Colombia, Ecuador, Mexico, Nicaragua, Panama, Paraguay, and Uruguay grant the power of veto to their Presidents. In addition, the Argentine president exercises a partial veto in actual practice (Jones 1997). See also Mainwaring and Shugart (1997) for a discussion of the presidential partial veto in Latin America. Alemán and Tsebelis (2005) describe the historical background of the presidential partial veto in Latin America. In the USA, partial veto power is granted to the governors of 43 states. Abney and Lauth (1997) carried out a survey of the views of executive and legislative budget officials regarding the effects of the powers of partial veto (item veto) exercised by governors on budget making, and concluded that the partial veto is an effective instrument for maintaining fiscal discipline.

may be present in the budget bill.

Although Baldez and Carey emphasize the crucial effect of the partial veto, their model does not sufficiently admit that the budget making process can be interpreted as a dynamic game. By contrast, the present article deals with the budget making process as a dynamic game, and presents the effects of the partial veto using a simple model derived from game theory. By identifying the outcome of the game as sub-game perfection, we first confirm that the Presidential partial veto operates in favor of the President. But, second, we also show that such effects in favor of the President diminish depending on the reversion point, which is obtained when either the Congress or the President refuses to pass the bill. Third, we also show that the Presidential partial veto works to a significant degree when it is made subject to the condition that the Congress has the power to impose a certain level of costs (sanctions) on the President in response to his ex-post arbitrary action. If the Congress is unable to sanction the President in any way, logically the Congress always chooses to reject the bill.

Although our argument will be organized along the above-mentioned lines, we still need to keep in mind that a policy outcome is realized not only by means of institutional powers allocated to the executive and the legislature. Political institutions affect policy outcomes roughly in three ways. Political institutions decide, first, the players who participate in the policy making process, second, the preferences of the players, and finally, the strategy sets of the players. As regards the first point, it should be noted that institutions, especially the constitutional framework, define the form of government, the procedures of policy making, and who plays a part therein. In respect of the second point, the players seek the policies which enable them to win elections, always assuming that the players have the incentive to gain power. The players' policy preferences are in this sense decided by the type of electoral system. And finally, the distribution of institutional powers among the players, which this article focuses on, decides what strategies are available to each player. When the information relating to the available strategy sets is revealed to the players, each player chooses the strategy to maximize his payoff.

Furthermore, we also need to remember that insofar as historical and socio-economic circumstances surrounding political institutions affect the players' preferences, political institutions are by no means the sole determinant of policy outcomes. In this regard,

factors such as ethnic and religious cleavages and income inequality can exert an important influence. For example, if income inequality widens, class conflict over redistribution can intensify. The resulting conflict affects the party system, electoral competition and even the choices available to institutions and regimes (Boix 2003, Acemoglu and Robinson 2006).

While this article recognizes the potential significance of factors such as the nature of political institutions and the character of the surrounding circumstances, we focus on the distribution of institutional powers between the executive and the legislature, as one of the factors that determines the policy process.

We have chosen to focus on budget making for the following reasons. First of all, the budget making process is a crucial policy process because it represents the authoritative allocation of resources by government. Secondly, longitudinal comparisons are possible because the budget making process is repeated annually. And most important of all, we find the Presidential partial veto at work mostly in the budget making process<sup>3</sup>.

In the following section, we present the theoretical model on which the study is based. We are concerned with differences in policy outcomes caused by whether or not the partial veto is granted to the President<sup>4</sup>. The model implies that it is likely that the President will achieve his or her preferred policy outcome if he or she is equipped with partial veto power. But, for such an outcome to be obtained, a necessary condition is that the reversion point provides for a smaller sized budget. In other cases, the reversion point is chosen as a final outcome in equilibrium. In addition, we also need the condition that the Congress can impose a certain level of sanctions on the President. Otherwise, the Congress will merely reject any budget proposal to prevent ex-post arbitrary action on the part of the President. In the next two sections, we discuss the specific case of the Philippines. After describing the characteristics of the Philippine presidential system, we identify the players, the players' preferences, and the players' strategy sets. We then proceed to examine the budget making process from 1994 to 2008.

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<sup>3</sup> In the American states, the governor's partial veto is limited to budget making only. On the other hand, in Latin American countries, presidents may exercise a partial veto over a wider range of policies (Alemán and Tsebelis 2005, p.11).

<sup>4</sup> We suppose that the President has the power to propose the budget to the Congress. This power does not change the outcomes of the model, but we make the assumption since presidents in most countries are equipped with this power.

We find that the President was able to achieve his preferred outcome through using the partial veto when the fiscal balance was sound. The Congress, however, prevented passage of the bill when the government began to accumulate a budgetary deficit. We also find that the Congress was able to employ sanctions to limit the President's discretion in actual processes. The case of the Philippines shows a pattern that supports the theoretical model on which this article is based.

## **II. THEORETICAL MODEL: PARTIAL VETO AND REVERSION POINT**

If we consider budget making as a game, we can design the following model. We assume that there are two players in the game, namely the President (P) and the Congress (L). We also assume that P and L have different preferences. Such a difference is caused by the difference of electoral systems between P and L, or by a divided government where the President's party is in a minority in the Congress.

In actual cases, the President's party sometimes controls the majority in the Congress. In such a situation, P and L share the same preference if the President can impose strong party discipline. If so, policy outcomes are decided by a single player, and the following model would become irrelevant. In other cases, a ruling coalition composed of several parties supports both the President and the majority in the Congress. In such circumstances we need to count each party as a player. Such cases decrease the significance of considering the institutional characteristics of the Presidential system. Additionally, there are three institutional players if the Congress is bicameral. But in this article, we assume two players in order to simplify the game structure. The essence of the logic remains the same.

Here, to obtain concreteness in preferences, we suppose that P prefers more concentration of funds on national level projects, and that L prefers more concentration on local level projects which benefit local constituencies<sup>5</sup>. We may further suppose that L prefers that funding for local projects benefits specific groups. Furthermore, we assume that the total amount of the budget is limited, and that allocations for national and local projects are not decided independently. In other words, if one type of project is

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<sup>5</sup> Here, the "local level projects" refers to projects applied to limited geographical areas. The "national level projects" include projects that are implemented at local level, but national level projects are applied nationwide, under the President's supervision.

given a more generous allocation, another type receives less<sup>6</sup>. We denote the available total funds for distribution in the budget as  $w$  (which excludes mandatory expenditure such as salaries and wages), and the distribution ratio for national level project as  $\pi \in (0,1)$ . The amount of funds for national level projects, therefore, is expressed as  $\pi \cdot w$  and the amount of funds for local level projects is expressed as  $(1 - \pi) \cdot w$ .

The reversion points of veto differ among various countries. In many of the countries with Presidential systems, the previous year's budget is set as the reversion point, either temporarily or permanently. In other countries, the President's budget proposal constitutes the reversion point<sup>7</sup>. In this article, we take the previous year's budget as the reversion point. The available resource for distribution at the time of  $t$  is, thus, expressed as  $w_t$ , and that of the reversion point is given as  $w_{t-1}$ . We also assume that the ratio of distribution at the reversion point is same as that of the previous year. The overall logic for explaining the role of the reversion point can be held through incorporating the variation of the reversion point's characteristics into the nature of previous year's budget. It should be noted that the Congress holds veto power as it can prevent a bill from being enacted, although in formal terms, the veto power is explicitly granted only to the President in most of the constitutions of the eleven countries.

#### *A. Model 1: The President has the package veto only*

Let us proceed to consider two different cases. One is the case where the President holds a package veto only, and the other is the case where the President holds both package and partial vetoes. When only the President is allowed to exercise a package veto, the game proceeds as follows (Figure 1). At first, the President (P) submits the budget proposal to the Congress (L). There is a constraint on the total amount, and P decides  $\pi$  within the operating constraint. After receiving the proposal, L decides whether it will

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<sup>6</sup> Baldez and Carey (1999, 2001) do not assume this constraint, with the result that it is easy to separate the two dimensions in their framework. That said, a budget constraint assumption captures the reality of the actual budget making processes in various countries.

<sup>7</sup> The OECD (2003) shows that the reversion points are as follows: the Presidential budget proposals in three countries; the previous year's budget in four countries; and the Congress's temporary budget in one country. Among the eleven countries selected by the research group, three are members of the OECD, while eight are not. In specific terms, the President's proposal is always the reversion point in Chile, but is only tentative in Bolivia and Mexico. In Argentina, Colombia, Indonesia and Uruguay, the previous year's budget is carried over when the budget bill is not enacted.



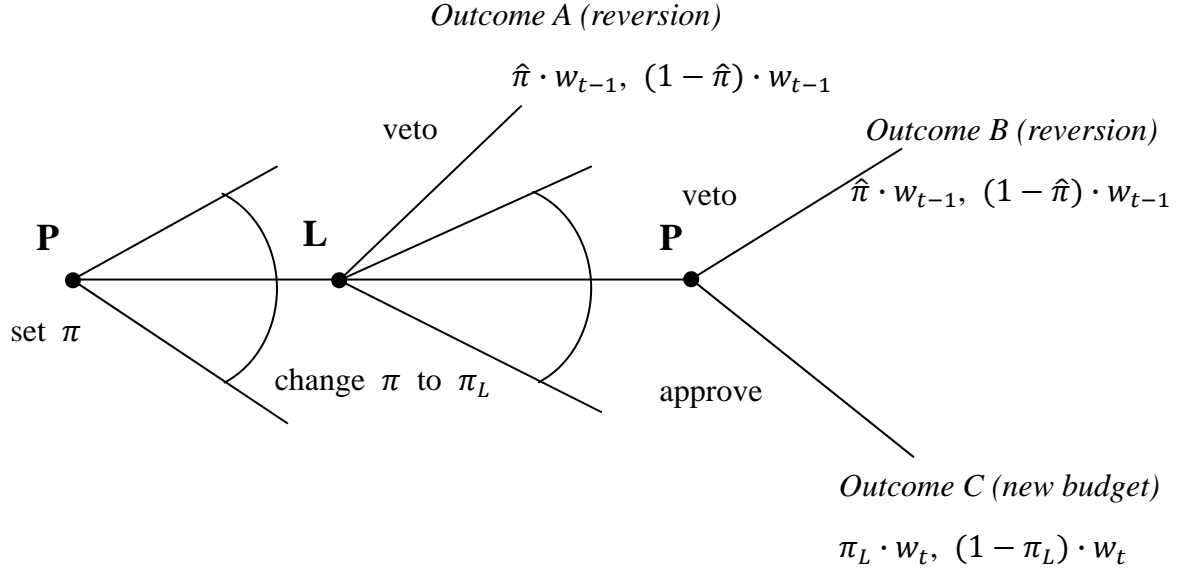
revise  $\pi$ , or reject the proposal totally. If L decides to reject the proposal, the game ends and we obtain the reversion point, the previous year's budget, as the outcome. The ratio of distribution to national level projects at the reversion point is denoted as  $\hat{\pi} \in (0,1)$ , and the total available resource for the distribution is denoted as  $w_{t-1}$ . Hence the total amount distributed for the national level projects is  $\hat{\pi} \cdot w_{t-1}$ , and the total amount for local projects is  $(1 - \hat{\pi}) \cdot w_{t-1}$ . We consider these as payoffs between the President and the Congress. It should be noted that the reversion point does not necessarily provide the same utility as those enjoyed by P and L in the previous year. The reversion point does not provide funds for the new projects which may have gained significance owing to a change in circumstances. The failure of budget enactment itself also has a negative impact on external relations. However we omit such costs in this model, in order to make the logic clear for focusing on a comparison of the package and the partial vetoes<sup>8</sup>. In this setting, P obtains the payoff,  $\hat{\pi} \cdot w_{t-1}$ , and L obtains  $(1 - \hat{\pi}) \cdot w_{t-1}$  at the reversion point.

On the other hand, the game proceeds to the next stage if L amends P's proposal and sets L's preferred distribution ratio,  $\pi = \pi_L$ . Responding to this action of L, P decides whether to accept the amendment or refuse it. If P exercises the veto, the reversion point is obtained as the outcome, and P and L receive the pay offs of  $\hat{\pi} \cdot w_{t-1}$  and  $(1 - \hat{\pi}) \cdot w_{t-1}$  respectively. If P accepts L's amendment, the payoffs are  $\pi_L \cdot w_{t-1}$  for P and  $(1 - \pi_L) \cdot w_{t-1}$  for L.

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<sup>8</sup> Such costs, however, affect the actual budget making process. As time passes, changes occur in the circumstances that surround policy issues. Governments have to deal with new policy needs and the old budget cannot always respond to such needs. Moreover the reversion budget may not fit the election cycle. Such costs are imposed on both the President and the Congress. As the costs increase, the incentives for the players to avoid the reversion grow stronger.

**Figure 1 Budget Game without Partial Veto**



\* P obtains the former payoff, while L obtains the latter at each outcome.

Source: Author

In this game, Outcome C (new budget) is obtained, if  $w_t \geq w_{t-1}$ . On the other hand, Outcome A (reversion) is obtained, if  $w_t < w_{t-1}$ .

Sub-game perfection consists of the following strategic profiles of P and L:

(1) If  $w_t \geq w_{t-1}$ ,

$$\sigma_L = \text{set } \hat{\pi} \cdot \frac{w_{t-1}}{w_t} \text{ as } \pi_L$$

$$\sigma_p(\pi_L) = \begin{cases} \text{approve, if } \pi_L \geq \hat{\pi} \cdot \frac{w_{t-1}}{w_t} \\ \text{veto, if } \pi_L < \hat{\pi} \cdot \frac{w_{t-1}}{w_t} \end{cases}$$

Outcome C is obtained, and the payoffs of P and L are  $\pi_L \cdot w_t$ , and  $(1 - \pi_L) \cdot w_t$

(2) If  $w_t < w_{t-1}$ ,

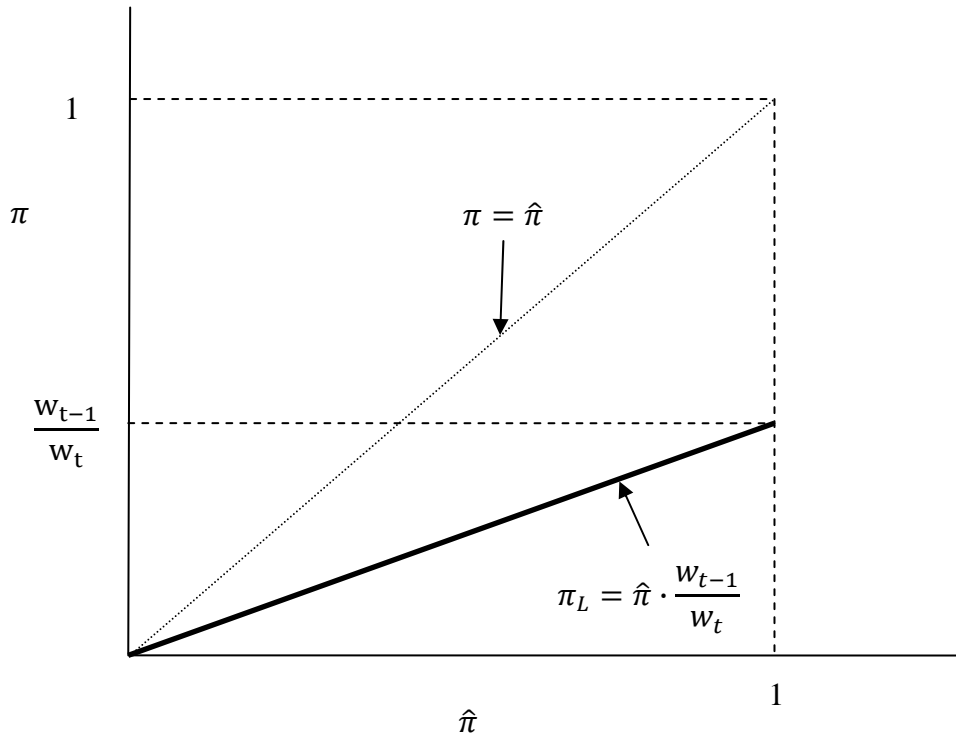
$$\sigma_L = \text{reject (veto)}$$

$$\sigma_p(\pi_L) = \begin{cases} \text{approve, if } \pi_L \geq \hat{\pi} \cdot \frac{w_{t-1}}{w_t} \\ \text{veto, if } \pi_L < \hat{\pi} \cdot \frac{w_{t-1}}{w_t} \end{cases}$$

Outcome A is obtained, and the payoffs of P and L are  $\hat{\pi} \cdot w_{t-1}$  and  $(1 - \hat{\pi}) \cdot w_{t-1}$ .

In the case of equilibrium (1) (new budget outcome), the realized  $\pi_L$  in the new budget is as indicated in figure 2.

**Figure 2  $\pi_L$  in a Budget Making Game without Partial Veto**



Source: Author

If the President is not allowed to exercise a partial veto, and if the total budgetary resource for distribution is larger than that of the previous year,  $\pi_L$  in equilibrium is lower than the previous year's ratio  $\hat{\pi}$ . This outcome is preferable for the Congress. In

short, if the President's power is limited to a package veto, the outcome approaches closer to the Congress's ideal point. Nonetheless, as the gap between the current available resource and the resource in the previous year shrinks,  $\pi_L$  moves closer to  $\hat{\pi}$ . This is because  $\frac{w_{t-1}}{w_t}$  moves closer to 1 in the figure. We can say that the gap between the current resource and that of the reversion point affects the level of  $\pi_L$ .

*B. Model 2: The President has both the package and partial vetoes*

Let us now consider the case in which the President holds partial veto power, and where the partial veto enables the President to eliminate certain items in a bill. With this power, the President wins an additional action in his game strategy. In addition to approving Congress's bill or vetoing the entire bill, the President can virtually modify the bill at the last stage. The game goes as follows. First the President (P) submits the proposal and sets  $\pi$ . The Congress (L) decides whether to approve the bill but with modification of the distribution ratio to  $\pi_L$ , or to reject the proposal and return to the reversion point. Until this point, the process is the same as in model 1. If L modifies the bill, P can exercise his or her partial veto to remove or alter certain items contained in the budget bill. For example the President can reduce the distribution of resources to local level projects, or he can restore cuts in the distribution of funds to national level projects without nullifying the entire bill. The President can delete the article which limits national level expenditure if the Congress's bill contains such an article. The President can also eliminate any item that provides additional new funds to local level projects created by the Congress. The partial veto enables the President to reset  $\pi$ , that is to say, to change L's ideal ratio  $\pi_L$  to P's ideal ratio  $\pi_P$ . This amounts to a virtual modification of the bill.

Model 2 is different from the model 1 insofar as the partial veto is put in the President's strategy set. We need another modification in the model to make it more viable, and the modification is that of taking the cost imposed on the President by the Congress into consideration. Such a cost arises if the budget is approved by the President with some changes. In real terms, the cost is the Congress's refusal to cooperate with the President in other legislative processes, or in relation to other political events, when the President's partial veto reduces the Congress's payoff<sup>9</sup>. This cost can be denoted as:

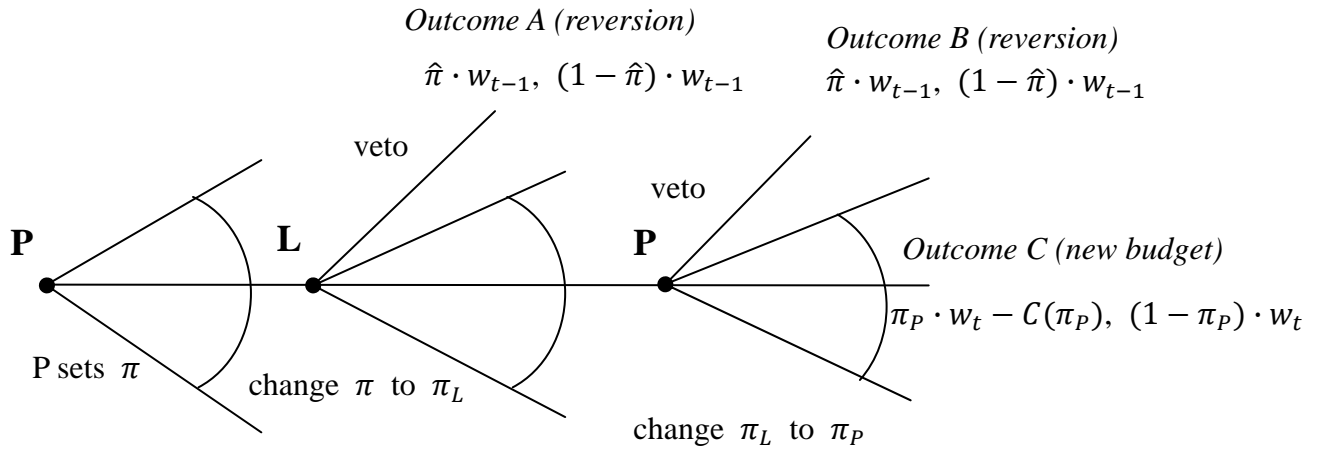
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<sup>9</sup> We can suppose that this cost occurs even in Outcome B of model 1 (the President

$$C(\pi_P) = \frac{\alpha}{2} \cdot \pi_P^2$$

We suppose the parameter  $\alpha \geq 0$  indicates the level of Congress's influence over the President. When we consider this cost in the model, the game can be expressed as in Figure 3.

**Figure 3 Budget Game with Partial Veto**



\* P obtains the former payoff, while L obtains the latter at each outcome.

Source: Author

Suppose  $\pi_P^*$  is the value of  $\pi_P$  which maximizes the P's payoff at Outcome C, provided we assume that  $\hat{\pi} \cdot w_{t-1} \leq \pi_P^* \cdot w_t - C(\pi_P^*)$  is always satisfied. Through the first order condition, we obtain,

$$\pi_P^* = \frac{w_t}{\alpha}.$$

In this game, if  $w_t \geq w_{t-1}$ , Outcome C (new budget) is obtained as long as  $\alpha$  is large

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exercises a package veto and the reversion point is obtained). But this cost does not change as a function of the degree of the veto.

enough. If  $\alpha$  is too small, or if  $w_t > w_{t-1}$ , Outcome A (reversion) is the final result. The strategic profile of the President and of the Congress that induces sub-game perfection is as follows:

(1) if  $w_t \geq w_{t-1}$ ,

$$\sigma_L = \begin{cases} \text{set } \pi_L \text{ at } L's \text{ ideal point, if } \alpha \geq \frac{w_t^2}{w_t - (1 - \hat{\pi})w_{t-1}} \\ \text{veto, if } \alpha < \frac{w_t^2}{w_t - (1 - \hat{\pi})w_{t-1}} \end{cases}$$

$$\sigma_p(\pi_L) = \text{set } \pi_P^* = \frac{w_t}{\alpha} \text{ as } \pi_P$$

Outcome A or C will be obtained depending on the Congress's influence parameter  $\alpha$ . If the Congress's influence is small, Outcome A is obtained. The President and the Congress obtain  $\hat{\pi} \cdot w_{t-1}$  and  $(1 - \hat{\pi}) \cdot w_{t-1}$  respectively. If such an influence is large enough, Outcome C is obtained. The payoffs are  $\pi_P^* \cdot w_t - C(\pi_P^*)$  and  $(1 - \pi_P^*) \cdot w_t$  under the new budget.

(2) If  $w_t < w_{t-1}$ ,

$$\sigma_L = \text{reject (veto)}$$

$$\sigma_p(\pi_L) = \text{set } \pi_P^* = \frac{w_t}{\alpha} \text{ as } \pi_P$$

Outcome A is obtained, since  $\pi_P^* > \hat{\pi}$  is always satisfied because of the assumption that  $\hat{\pi} \cdot w_{t-1} \leq \pi_P^* \cdot w_t - C(\pi_P^*)$ . The budget is not enacted. The President and the Congress get the payoffs of  $\hat{\pi} \cdot w_{t-1}$  and  $(1 - \hat{\pi}) \cdot w_{t-1}$  respectively.

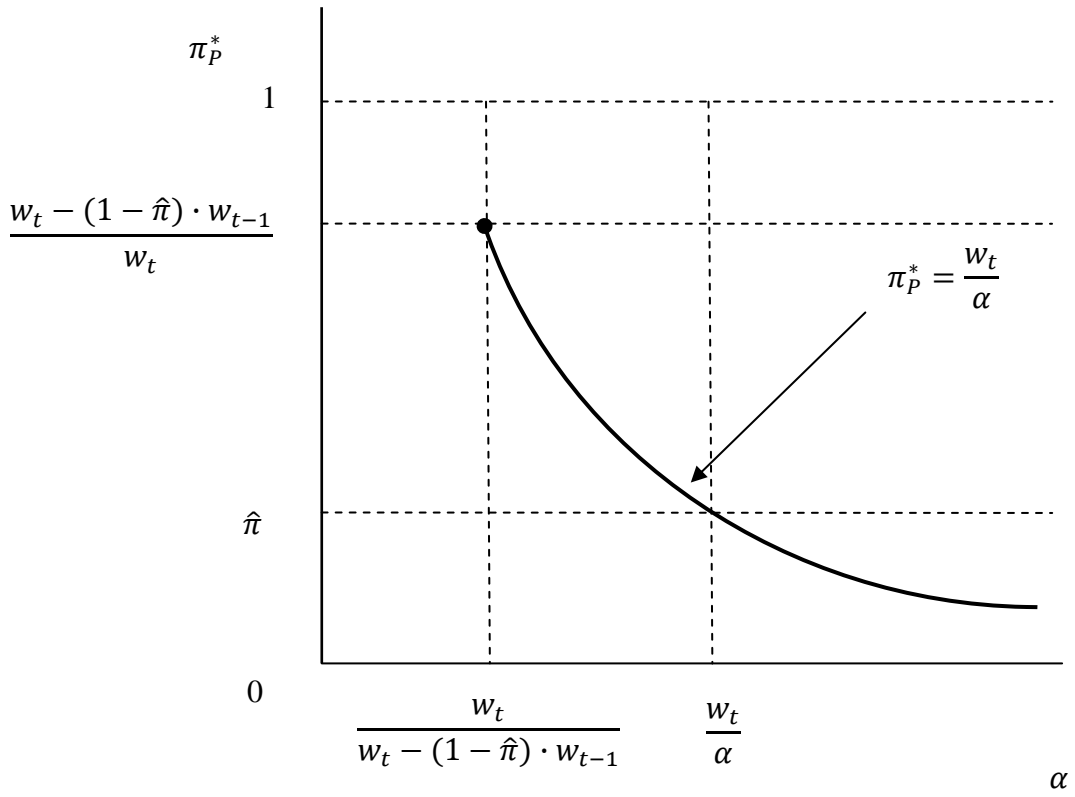
In this game (Model 2), the budget is enacted, when the total resource for distribution is much larger than that of the previous budget, and when the Congress has the means to impose sanctions on the President. Otherwise, the budget is not enacted. In other words, the conditions to enact a budget under Model 2 are much stricter than those under Model 1.

When the budget is enacted (if  $w_t \geq w_{t-1}$ ), the obtained distribution rate  $\pi_P^*$  satisfies the conditions:

$$\left\{ \begin{array}{l} \pi_P^* = \frac{w_t}{\alpha} \\ \alpha \geq \frac{w_t^2}{w_t - (1 - \hat{\pi})w_{t-1}} \end{array} \right.$$

These conditions can be expressed as in Figure 4.

**Figure 4 The Value of  $\pi_P^*$  in Model 2 (the budget game with partial veto)**



If  $w_t \geq w_{t-1}$   
Source: Author

Figure 4 differs from Figure 2, insofar as the X axis indicates  $\alpha$ , the level of the Congress's influence over the President. Figure 4 implies that the President can obtain the preferable outcome ( $\pi_P^* \geq \hat{\pi}$ , more distribution for the national level projects), if the Congress has influence over the President in certain degree (if  $\frac{w_t^2}{w_t - (1 - \hat{\pi}) \cdot w_{t-1}} \leq \alpha \leq \frac{w_t}{\hat{\pi}}$ ).

The gap between the amount of available resources at the current budget and that of the reversion point, however, affects the ratio of distribution, just as in Model 1. As the gap shrinks, the ratio of distribution  $\pi_P^* = \frac{w_t}{\alpha}$  becomes smaller, and the magnitude of the President's superiority diminishes.

### *C. Implications of the models*

In Model 1 (without the partial veto), the strategic profile that provides a favorable outcome for the Congress constitutes equilibrium as sub-game perfection with a greater probability. In Model 2 (with partial veto), the strategic profile which provides a favorable outcome for the President constitutes equilibrium as sub-game perfection with a larger probability. Through comparison of the two models, we can conclude that the President's partial veto power works in favor of the President. In addition, we obtained the theoretical prediction that the conditions for budget enactment are more restricted if the President holds partial veto power.

When we consider the effects of partial veto powers on budget making, we find two important conditions. The first is the gap between the amount of available resources for distribution in the current budget and that at the reversion point. Figure 2 and Figure 4 indicate that both the Congress and the President find it hard to realize their preferred outcomes, apart from the reversion point ( $\hat{\pi}$ ), if the gap is too small. Moreover, the reversion point always constitutes equilibrium, if the amount of available resources at the reversion point is larger than that available for current budget making ( $w_t < w_{t-1}$ ).

The second condition is the extent of the Congress's ability to sanction the President in cases where the President takes ex-post arbitrary actions that work against the Congress's interests. If the President can reduce the Congress's payoff through use of the partial veto after the Congress has approved the budget proposals, the Congress always rejects (in effect vetoes) the budget proposals before the President exercises his partial veto in order to contain the President's freedom of action. The reversion point is always brought into play, and the government falls into gridlock. The President's partial veto, however, becomes limited within the Congress's range of indifference, provided that the Congress can impose sanctions on the President in response to the President's arbitrary action. If Congressional sanctions come into play, a new budget is enacted in



equilibrium. In a Presidential system, the executive (the President) has less power to control the legislature (the Congress) than in a parliamentary system. Under a Presidential system, moreover, a divided government causes political gridlock. If the arbitrary usage of a partial veto brings about gridlock in the policy-making process, the President needs to pay a high cost for management of the government. The function  $C(\pi_P)$  is intended to insert such costs into the model. Theoretically, a new budget can be enacted just because the President faces such costs.

The models indicate that policy outcomes, including especially the budget outcome, are affected by whether or not the President has a partial veto, what the reversion point is, and the severity of the sanctions that the Congress can impose on the President. In other words, while the partial veto can be seen as enhancing the authority of the President, its effect diminishes along with the gap between the amount of the resources that are currently available, and the amount of the resources that were approved at the reversion point. The smaller the gap becomes, the more likely it is that there will be a return to the reversion point.

To test the validity of the theoretical model, we will now consider the case of the Philippines.

### **III THE PRESIDENTIAL SYSTEM IN THE PHILIPPINES**

#### *A. Players*

It is useful to divide the players in the policy making process into institutional players and partisan players<sup>10</sup>. The identity of the institutional players is determined by institutions, and especially by the constitutional framework. In the Presidential system, the institutional players consist of the President, the Senate, the House of Representatives, and the Supreme Court. The identity of the partisan players, which consist of the political parties and factions, is determined by the political system. If the majority of the Congress is composed of several parties, we need to count each party. If on the other hand the President's party holds the majority in the Congress, the number

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<sup>10</sup> Tsebelis (2002) discusses this distinction in his analysis of veto players. Cox and McCubbins (2001) in arguing the effects of institutions, emphasize the need to distinguish between the separation of power and the separation of purpose in arguing the effects of institutions.

of players is closer to one.

Using the distinction between institutional players and partisan players, we can identify three dominant players in the policy making process in the Philippines, especially in the process of drawing up the budget. They are institutional players, namely, the President, the Senate, and the House of Representatives. Partisan players are not included as key players here because political parties are not cohesive in the Philippines. Political parties have been fluid and unstable ever since democratization in 1986 (Kasuya 2008). Political parties usually flourish just before the Presidential elections, and politicians defect to the President's party after the elections. The majority (mostly the President's allies) and the minority in the House disagree over a number of issues. But conflict is generally caused not so much by policy differences as by competition over the distribution of resources. A high degree of income inequality in the country seems to be responsible for producing class based parties such as a laborers' party and a peasants' party. In reality, however, we cannot find such parties as dominant groupings in the Congress.

The weak party system has been caused by the institutional setup, and is particularly a product of the executive and electoral systems. If the government takes a parliamentary form, or if the electoral system is one of proportional representation, the party leaders have strong control over party members. In the Philippines, twenty percent of the House seats are allotted on the basis of limited proportional representation, or in other words through application of a "party list" system. But this is quite restricted because one party is allowed to have a maximum of three seats. Rather, the institutional setup of the presidential system along with a single member district system for the House produces a trend in which politicians are individually independent and supported by their own personal bases in their respective bailiwicks. Moreover, because of their limited capacity, political parties do not play a determining role in election campaigns, nor are they the main providers of financial support. Election campaigns, rather, are organized by individual candidates. Hence, it is possible for candidates who have failed to be nominated by any of the dominant parties to simply establish their own new party. As it happens, candidates who defected from dominant parties won the Presidential elections in 1992 and 1998<sup>11</sup>. As the Presidential and the Congressional elections are conducted

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<sup>11</sup> Fidel Ramos, who lost the party nomination of the dominant LDP in 1992,

simultaneously, local candidates decide which party they belong to based on which Presidential candidate they wish to identify themselves with. This pattern has been repeated every six years.

The institutional players are important because each of them shares common interests beyond those of the partisan grouping. The President, who is an individual player, obviously has no interest in party conflict. Although the House is a collective player, its members are relatively unified in claiming their interests against the President and the Senate. The electoral system and the promotion of political careers defined by the institutional framework form a commonality of interest within each of the institutions concerned. Instead, it is institutional cleavage that often causes conflict among institutional players<sup>12</sup>.

**Table 1 The President and the Congress under the 1987 Constitution**

	<b>President</b>	<b>Senate</b>	<b>House of Representatives</b>
<b>Number</b>	1	24	216 (Single Member District) + Maximum 50 (proportional representation)*
<b>Term</b>	6 years	6 years	3 years
<b>Term Limit</b>	No reelection	No consecutive three terms	No consecutive four terms
<b>Constituency</b>	National	National	Single Member District + National
<b>Electoral System</b>	Plural	Plural by bloc voting (12 names)	Plural + Limited proportional representation

\* As of November, 2008. Actual number of proportional representatives is 22.

Source: Author

Table 1 shows in diagrammatic form the electoral system in terms of the three institutional players. The President is elected by a national constituency. Since the

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established his own party, Lakas-NUCD, and won the election. Likewise, Joseph Estrada, who defected from the old Liberal Party, created a coalition called LAMP in 1998, and was elected.

<sup>12</sup> The shift from the Presidential system to the parliamentary system has been proposed and discussed since the 1987 constitution was enacted, because gridlock was often caused by disagreements among the institutional players.

President has no second term, he or she finds that current payoffs are much more significant than future ones. The weak party system also prevents the President from retaining power through a political party after retirement. The President, therefore, focuses on maintaining a stable administration during his or her current term. By contrast, the senators seek reelection and even hope to step up to higher positions such as President and Vice President. Since the senators are all elected from the same national constituency, they basically compete with each other. Hence, the Senate is the least cohesive of the three institutional players. The Senate, however, has a common preference that differs from those of other two players. To ensure election within a national constituency, the senators are much concerned with their public image as portrayed by the national media, and one way for a senator to become widely known among the public is to attack the other two players, demanding, for instance, investigation of scandals allegedly involving the President and/or the corruption of House members. By contrast, the House members do not compete with each other to be elected, because they are mostly elected from single member districts. Their main concern is how to steer resources toward their own constituencies for cultivating their “personal votes” (Cain, Ferejohn, and Fiorina 1987). The common interest of the House as one collective player seems to matter for the members more than shared partisan interests.

### *B. Preferences*

As mentioned above, political institutions decide the identity of the three players who have different preferences due to the electoral system. We will now take a closer look at their actual preferences in the budget making process<sup>13</sup>.

The House has a clear preference. House members give much attention to establishing and maintaining their respective political machines in their own districts, such political machines being the pillars of their election campaigns<sup>14</sup>. For sustaining their political machines, House members need to secure and distribute resources for their local constituencies. Distributions include the provision of both public goods (roads, water

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<sup>13</sup> Eaton (2002) also stresses the difference of preferences brought about by the electoral system. He shows that the House members are inclined to secure “personal votes” because the electoral system promotes candidate-centered elections, rather than party entered ones.

<sup>14</sup> See Kawanaka (2004) for local political machines in the Philippines.

systems, and drainage) and private transfers (support for individual residents). For house members, such distributions secure their “personal votes”. The House members, therefore, seek to maximize the distribution of benefits for their local constituencies in the budget making process, thus employing mechanisms that are essentially “pork barrel” in nature<sup>15</sup>. What makes the case of the Philippines distinctive is that House members and even senators have the authority to identify specific projects to support from within their allocated “pork barrel” funds. Each member of the House is given a fixed amount of funds in the budget, and he or she can choose at his or her discretion specific projects to be paid for using the funds concerned. After the House members decide on their particular projects, the relevant departments of the government carry out the actual implementation. The description of the pork barrel item in the budget has changed over the years from one government to another. First, under the Ramos administration, it was called the “Countrywide Development Fund”, and then it was changed to the “Priority Development Assistance Fund” under the Estrada administration. But the system has been much the same regardless of nomenclature. The budget for the Department of Public Works and Highways is partially used for this purpose, too. For example, in the fiscal year 2002, each senator received 150 million peso’s worth of pork barrel funds while each House member received a 50 million peso allocation. Using these funds, each member of the House implements road construction, the establishment of water systems and drainage facilities, and programs for promoting health and education in his or her district. Not surprisingly, the House members seek to enlarge the pork barrel funds in the budget making process.

The President’s preference differs markedly from that of the House. The President is not elected from a small constituency, and he has no reelection incentive due to the limit that is placed on his or her term of office<sup>16</sup>. The President, therefore, prefers to allocate resources to national level projects that are managed under his discretion. These projects include servicing the national debt, providing counterpart funds for foreign assisted projects, extending various nationwide subsidies, and allocating Presidential

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<sup>15</sup> See Ferejohn (1974) for pork barrel in American politics.

<sup>16</sup> The President gives attention to the continuation of his own party’s strength, but this does not provide an alternative incentive. Even if his party continues to hold the presidency after his retirement, there is no guarantee that he will keep his influence over the party. The new party leader will monopolize influence, and the preceding President cannot expect to retain the loyalty of his successor. In short, the incumbent has no guaranteed payoff after his retirement.

discretionary funds (the contingent fund and the calamity fund). The President, who cannot run in future elections, also prefers to concentrate on maintaining a sound fiscal balance, reflecting his concern over the provision of stable government management in his current term of office. Nonetheless, the President is not totally free from the need to take local projects into account. If the President ignores the importance of providing pork barrel, he loses the means to exercise influence over the Congress. As mentioned above, the House members need pork barrel allocations for their political survival. If the release of funds is agreed by the President, the House members may provide concessions to the President in exchange for funding for their pet projects. The President's power over the release of funds, which will be discussed later, is the key to gaining the Congress's support for the President's policy initiatives, especially when the President cannot control the Congress through the party line due to the innate incoherence of the parties (Eaton 2002, Kasuya 2008). Constrained by this limitation, the President tries to expand the national projects.

Senators have a reelection incentive and are also concerned with the future development of their own political careers. They are elected from a national constituency, and their further political careers also depend on their ability to achieve nationwide popularity. It follows that senators seek to make themselves known at the national level. In addition, unlike the President, senators do not need to involve themselves in the day-to-day business of administration and management. In this context, taking a stance on fighting corruption is one of their favorite stratagems. Senators sometimes claim to be keen to abolish or slash pork barrel funds, so as to give the impression that they are committed to fighting corruption. In this sense, senators are different from the House members, who are more preoccupied with the actual distribution of funds rather than with their own personal images<sup>17</sup>. Be that as it may, pork barrel distribution does not necessarily lie totally outside the concern of the senators. Senators need the support of local politicians to ensure their election, and in fact they distribute funds in response to requests from local officials. The senators do so, however, to a lesser extent than the House members.

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<sup>17</sup> For example, when the media began to criticize pork barrel in 1996, senators announced their intention to abolish the fund. See Carlito Pablo, "Congress Kickbacks: How Much for Whom," *Philippine Daily Inquirer*, August 13, 1996.

### *C. Powers*

The Presidential budgetary powers in the Philippines are set out in Table 2.

**Table 2 The Presidential Budgetary Powers in the Philippines**

<b>Veto</b>	1. Package Veto (which the Congress can override with the support of 2/3 of total members) 2. Partial Veto
<b>Gate Keeping / Agenda Setting</b>	1. Exclusive Introduction of Budget Proposal 2. Ceiling Set through Proposed Budget
<b>Decree</b>	None. Except for the power to set implementing guidelines through executive orders.
<b>Reversion</b>	Carry over of the Previous Budget
<b>Implementation</b>	1. Fund Transfer among Items 2. Controlling Fund Release

The President holds a superior position in budget making as compared with his position in ordinary legislation. Among the special powers given to the President for budget making are (1) partial veto power, (2) exclusive introduction of personal proposals, and (3) the setting of a ceiling, which is not allowed for in the other legislative processes. He is also given the power to control the actual release of funds. Partial veto power allows the President to delete certain items in the budget bill without rejecting the entire bill. If the President is given solely a package veto, he has only two choices for the Congress' version of the budget bill, namely whether to take it or leave it. But with partial veto power, the President can virtually revise the bill by separating it into pieces and eliminating only those items that he objects to. The President's exclusive right to introduce a budget bill means that the President monopolizes the power to propose a bill. In other words, the Congress is not allowed to make its own proposal. Finally, the ceiling set means that the Congress cannot revise the President's budget proposal to increase the total amount of funding. The Congress can only revise the contents of the bill within the total amount set by the President. The exclusive introduction and the ceiling set define the starting point of the budget-making process as well as the possible range of the bargaining.

The partial veto and the existence of Presidential discretion over the actual release of funds make it possible for the President to revise the budget enacted by the Congress

during the final phase of the budget making process. In addition, it should be noted that the previous year's budget constitutes the reversion point. This is an important consideration when we discuss the theoretical model on which this article is based. Another important point, particularly in the case of the Philippines, is that the Congress is not allowed to revise the expenditure for debt repayment. Presidential Decree No. 1177, which was imposed under President Marcos's dictatorship, stipulates that the servicing of the government's debts is automatically appropriated. The decree remains valid even though the Marcos regime collapsed in 1986. In that it secures credibility concerning the country's ability to repay foreign donors, the decree is an indispensable instrument that enables the President to manage the country's foreign debt.

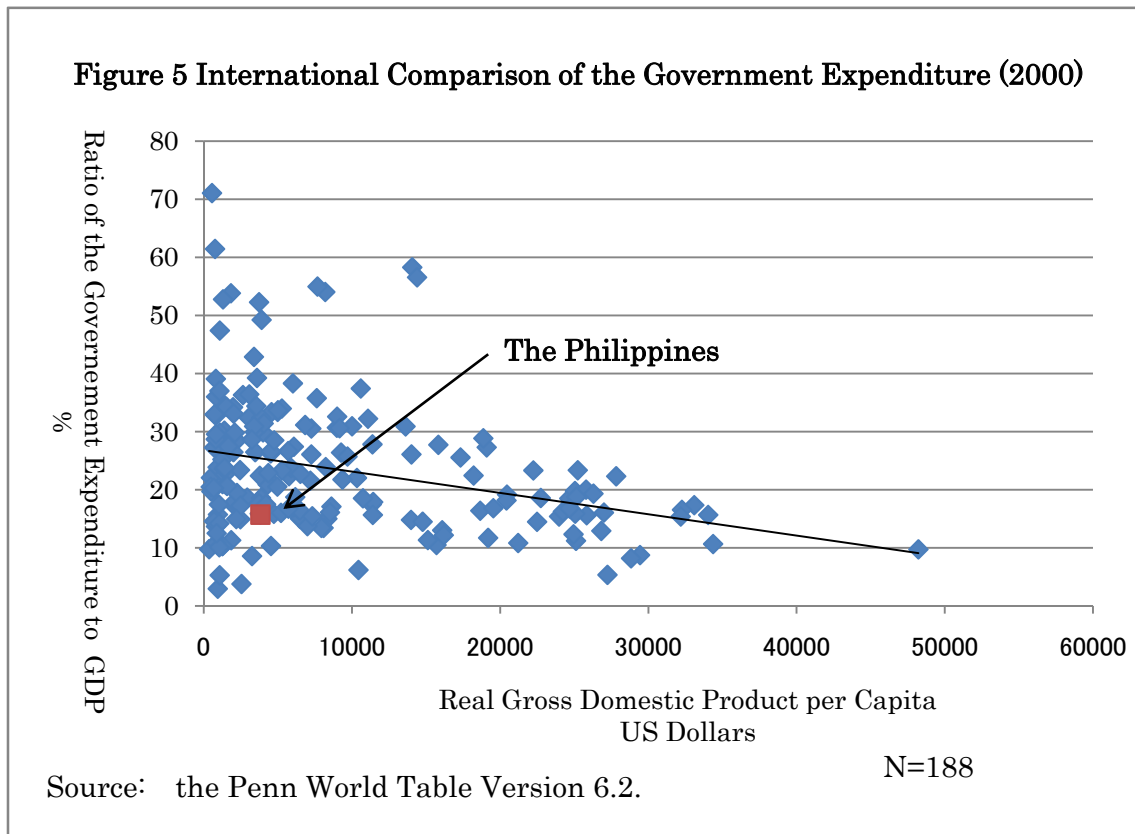
#### **IV. OUTCOMES OF FINANCIAL POLICY AND CASES OF BUDGET MAKING**

##### *A. Outcomes of Fiscal Policy*

Given the realities of the above-mentioned institutional framework, how is the budget making process carried out?

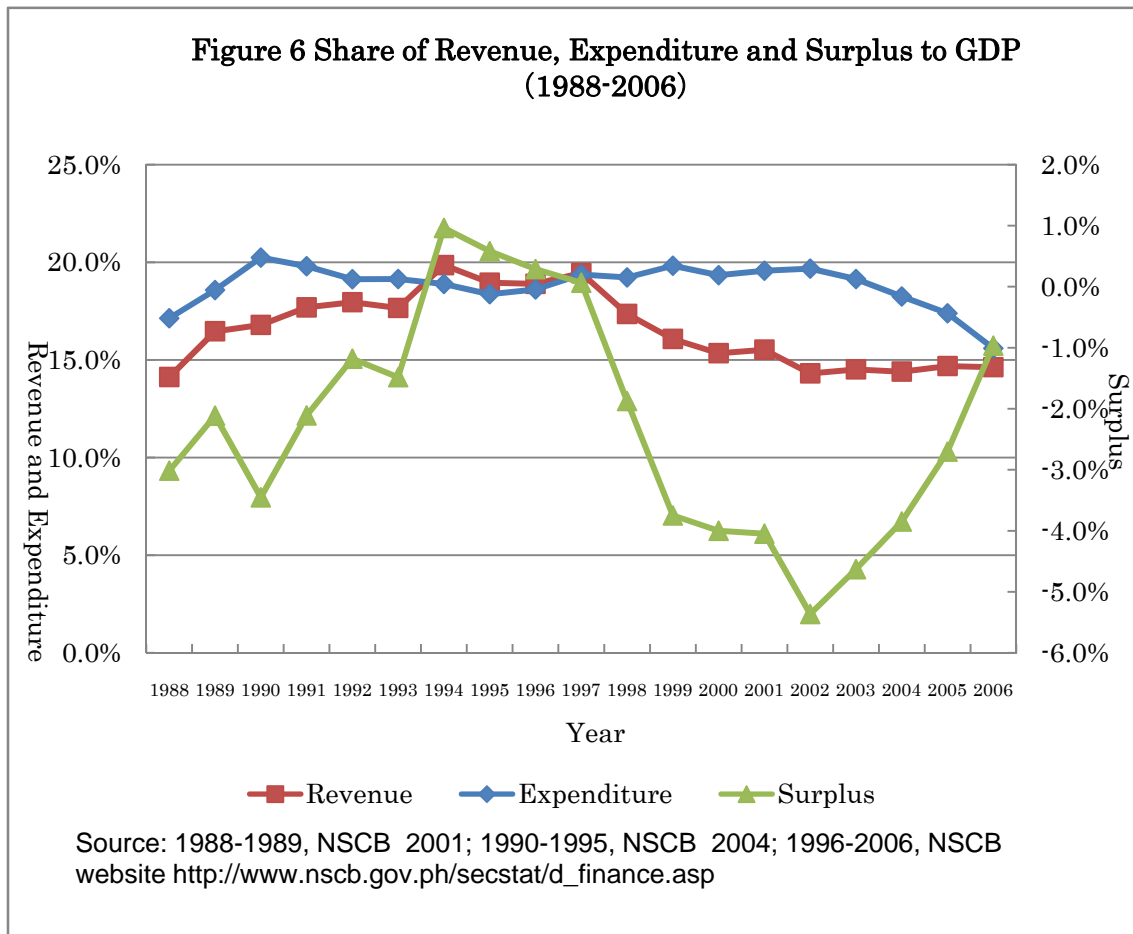
In the first place, it should be noted that the expenditure of the Philippine government is relatively small in size. Figure 5 plots the expenditure sizes of 188 countries' governments in terms of ratio to the gross domestic product (GDP) as of 2000. This figure indicates how small the Philippine government's expenditure is.





The expenditure size has been small over a long period because on the one hand, it is not easy to carry out the legislation needed for revenue expansion, and on the other, because the institutional framework enables the President to restrain the size of the budget. The small expenditure size means amongst other things that obligatory spending (for example on wages and salaries, and on maintenance) occupies a relatively large portion of the entire budget. In that sense, in the Philippines, the budgetary funds to be competed for between the President and the Congress are far from abundant.

Figure 6 shows the ratios of government expenditure, the revenue and the surplus to GDP between 1988 and 1996.



In the Philippines, revenue increased after the 1986 democratization, and initially the fiscal balance showed an improvement. The balance turned into a positive surplus under the Ramos administration. The revenue, however, declined after 1998 following the Asian financial crisis, and fiscal conditions deteriorated under the Estrada and Arroyo administrations. The Arroyo administration started slashing the expenditure after 2005, and has improved the fiscal balance, though revenue remains at a low level.

The most appropriate way to test our theoretical model would be to use data on the budgetary shares of national level projects and local level projects. Unfortunately, however, it is difficult to obtain relevant data, because we need to check each item, one by one, in order to extract the information that we need. Identifying pork barrel funds is also not easy as they are inserted in several items aside from those that are explicitly pork barrel in nature. Instead, we have inspected budget making processes from fiscal year 1995 to 2008, and have examined the extent to which the actual processes have confirmed the pattern implied by our model. The key points are whether the President is

able to exercise the partial veto to revise the budget and to make the final version preferable for him, and whether a decrease of available resources induces Congress to veto the budget.

### *B. Cases of Budget Making*

If we look in detail at the budget making processes from fiscal year 1995 to 2008, it is clear that for the whole of the period in question, the President never exercised a package veto<sup>18</sup>. In contrast, the President exercised a partial veto almost every year. Another significant point is that the budgets were enacted from 1995 to 2000 even if the processes were delayed. But after 2001, the Congress failed to enact the budget on three occasions. The processes became severely delayed even though the budget bills were approved in the end. Table 3 shows the dates of approval at several stages in the budget making process for each of the years in question. If we consider the fiscal balance shown in Figure 6, the budget making process began running into gridlock after the steep fall in the surplus in 1998. Thus gridlocks have coincided with deterioration in the fiscal balance. It should be noted that the President's party held the majority in the Congress consistently in these years. At least in terms of political parties, the Philippines did not experience a divided government during these years. Gridlocks, in other words, have not been the result of divided government.

**Table 3 The Approval Dates of Budget Bills**

<b>Fiscal Year</b>	<b>Administration</b>	<b>President's Proposal</b>	<b>House Approval</b>	<b>Senate Approval</b>	<b>Bicameral Conference Committee</b>	<b>President's Approval</b>
1995	Ramos	July 25, 1994	Oct. 25, 1994	Dec. 17, 1994	Dec. 20, 1994	Dec. 30, 1994
1996	Ramos	July 24, 1995	Nov. 6, 1995	Dec. 15, 1995	Dec. 21, 1995	Dec. 29, 1995
1997	Ramos	July 22, 1996	Nov. 4, 1996	Dec. 17, 1996	Jan. 29, 1996	Feb. 12, 1997

<sup>18</sup> The author used the database of Business World, CODEX, to obtain relevant information on budget making processes. The cases have been selected for fiscal year 1995 and after because CODEX provides news articles only from 1994 up to the present.

1998	Ramos	July 28, 1997	Nov. 20, 1997	Dec. 17, 1997	Jan. 12, 1998	Feb. 14, 1998
1999	Estrada	Aug. 22, 1998	Nov. 19, 1998	Dec. 11, 1998	Dec. 21, 1998	Dec. 30, 1998
2000	Estrada	July 27, 1999	Nov. 15, 1999	Dec. 13, 1999	Feb. 2, 2000	Feb. 16, 2000
2001	Estrada / Arroyo	July 24, 2000	Dec. 19, 2000	Not approved	***	***
2002	Arroyo	Aug. 8, 2001	Nov. 20, 2001	Dec. 18, 2001	Dec. 22, 2001	Jan. 21, 2002
2003	Arroyo	Aug. 21, 2001	Dec. 18, 2002	March 6, 2003	March 12, 2003	April 23, 2003
2004	Arroyo	Aug. 6, 2003	Dec. 17, 2003	Jan. 23, 2004	Not approved	***
2005*	Arroyo	Aug. 25, 2004	Dec. 9, 2004	Feb. 10, 2005	March 1, 2005	March 15, 2005
2006	Arroyo	Aug. 24, 2005	April 5, 2006	June 1, 2006	Not approved	***
2007	Arroyo	Aug. 23, 2006	Oct. 20, 2006	Dec. 4, 2006	Jan. 24, 2007	March 22, 2007
2008	Arroyo	Aug. 22, 2007	Nov. 11, 2007	Dec. 11, 2007	Jan. 28, 2008	March 11, 2008

\* The Senate approved the Senate version of the budget on Feb. 10, 2005 but it later approved the House version on March 1, 2005 without any revision, just in order to enact the budget law.

Source: The Author, based on the Business World CODEX.

This pattern described fits the theoretical model proposed earlier in this article. If the reversion point is the previous year's budget and if the reversion budget provides a greater quantity of resources than the current budget proposal, the reversion point is obtained as equilibrium. For example, for the fiscal year 2004 budget when the budget deficit widened, the House members discussed the possibility of obtaining the reversion budget even at an early stage in the budget making process. For the fiscal year 2005, the House was inclined to opt for the reversion budget, when it became clear that the House would not have any means to intervene in the current budget implementation. For the

2005, 2007, and 2008 budgets, the resources for distribution diminished as the share of obligatory and automatic appropriation increased. It should be noted that 2004 (in which year the budget making was for the 2005 fiscal year) was a special year as President Arroyo declared a fiscal crisis, and she did not exercise the partial veto. Our model would lead us to expect that the 2005 and 2007 budgets would not be enacted. But these budgets were enacted because the players seemed to be apprehensive concerning the cost of losing confidence in various quarters and feared a shortage of funds for new projects if the budget enactment were to fail repeatedly.

If we look at the budget making process year by year, we notice that four issues have always been given much attention by the players. These are first, the debt service, second, the congressional pork barrel, third, the President's discretionary funds, and fourth, the introduction of provisions for requiring the Congress to intervene in the implementation phase. Every year, the Congress and the President repeated the same process: the Congress tried to increase the funding for pork barrel or for other local projects, and attempted to insert provisions to guaranteeing the release of funds for these projects; in return, the President exercised the partial veto to delete such revisions. Table 4 indicates the number of items for partial veto, the number of items to which conditions were attached for implementation, and the major points on which the veto was used.

**Table 4 The President's Veto**

<b>Fiscal Year</b>	<b>Administration</b>	<b>The Number of Vetoed Items</b>	<b>The Number of the Items with Conditions</b>	<b>The Major Vetoed Point(s)</b>
1995	Ramos	1	6	debt service
1996	Ramos	9	11	debt service, contradiction with the policy of the current administration
1997	Ramos	16	11	debt service, restrictions over the President's discretion
1998	Ramos	9	21	debt service, restrictions over the President's discretion
1999	Estrada	1	1	debt service

2000	Estrada	52	10	debt service, requirement for the Congressional concurrence, restriction on the President's power to hold the fund release
2001	Estrada / Arroyo	No budget	***	***
2002	Arroyo	10	21	Items to give discretion to some offices for fund use. restriction on the President's power to hold the fund release
2003	Arroyo	9	25	General provision to set the priority order on fund release
2004	Arroyo	No budget	***	***
2005	Arroyo	0	0	No veto
2006	Arroyo	No budget	***	***
2007	Arroyo	14	23	Giving the government offices the authority to use their own revenue. Rationalization of government organizations. Restrictions on foreign assisted projects
2008	Arroyo	17	31	Pork barrel, debt service

Source: The Author, based on the President's Veto Messages.

The first issue, that of debt service, concerns attempts by the Congress to revise the bill by transferring funds from debt repayment to local level projects. The Congress cannot merely increase the funds for local projects because of the ceiling imposed by the President. Therefore, the Congress needs to look for a source of available funds for transfer. The House tends to identify the debt service allocation as a likely source, as the country's need to maintain a credible commitment to foreign creditors has little significance for the House's members. In the terms employed in the theoretical model, this is an action to increase  $1 - \pi$  within the budget constraints. On such occasions, the President usually exercises a partial veto and restores the original expenditure that has been earmarked for debt servicing. This can be done because the Presidential Decree No.

1177 provides for automatic appropriation for debt service. After the partial veto is imposed, the amount that has been automatically calculated is inserted into the expenditure program. Under the Ramos administration, the total amount of the budget sometimes exceeded the President's proposal, because the President exercised the partial veto on the debt service just after Congress made the transfer of funds. The increased funds for local projects were not touched by the President. Hence, the total amount ballooned<sup>19</sup>. At any rate, the President has been able to follow his or her intention and restore the expenditure intended for servicing the debt.

The second issue, the bargaining over pork barrel funds, takes place between the President and the House, as well as between the Senate and the House. In essence, senators need pork barrel funds to attract the support of local officials for their election. But, when the media in 1996 started focusing on the anomalies and corruption issues associated with pork barrel funding, senators emphasized their anti-pork barrel stance and tried to slash the funds in the budget. The senators' strategic calculation seemed to be that a clean image is more effective than pork barrel spending in impressing the national constituency. Conflicts over this issue between the Senate and the House delayed enactment of the budgets in 1997 and 2000. For its part, the House has strongly resisted attempts to abolish pork barrel expenditure. The President could not slash the pork barrel funds drastically since slashing the funds deprives him of a means to control the House through the release of funds. Past Presidents, however, seem to have made the distribution ratio closer to their preferred level at the implementation phase. The President's leverage diminishes as the available funds for distribution decreases due to the widening fiscal deficit. The Estrada administration faced this problem. President Estrada faced a serious gridlock in bargaining due to the growing fiscal deficit. The conflict between the President and the House led to delay and failure of enactment, and eventually contributed to the downfall of the administration. This is the cost for the President imposed by the House when the President increases the payoff at the expense of that of the House, which is the aforementioned  $C(\pi_P)$ .

President Estrada promised to abolish the provision of pork barrel funds during his campaign for the 1997 Presidential election. As it happened, he did not need to rely on

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<sup>19</sup> Some claim that such a situation is unconstitutional. The House also discussed a bill to repeal the Presidential Decree No. 1177. Nonetheless, the decree was not repealed and the situation has not yet changed.

pork barrel funds, because his popularity amongst the voters was based on his personal appeal as a former movie actor. After he was elected President, he did not include pork barrel items in the budget proposal for the fiscal year 1999. The House strongly opposed the “no pork” budget, and created pork barrel items in the legislation process. The amendments introduced by the House were finally approved by the Senate, and then by the President. But the country’s fiscal circumstances were worsening as a result of the 1997 Asian financial crisis (See Table 3), and the President needed to limit the release of funds to avoid further fiscal deterioration. The House reacted negatively to the President’s determination to reduce the actual release of funds, and the upshot was that for the fiscal year 2000 budget, the House boycotted the session to protest the President’s attempt to block the release of the pork barrel funds. In the end, the budget was enacted but final approval was delayed until February. In addition, the President vetoed 52 items in the appropriation act, a remarkable state of affairs that shows how serious the conflict had become. The following fiscal year 2001 budget was not approved because of the impeachment trial against President Estrada. In fact, the legislation process was delayed even before the impeachment process got under way because of the severe conflict between the President and the House over the budget proposal<sup>20</sup>. Aside from the proposal itself, the actual implementation of the current budget provides information on the prospective distribution rate,  $\pi$ , of the budget proposal. The House determines its action by predicting the President’s future actions based on the current implementation. When it seems probable that the House will not be able to secure  $\pi$  which induces a new budget as equilibrium due to the possible President’s ex-post defection, the House chooses to reject the budget bill.

The third and the fourth issues, namely the restriction governing the President’s discretionary funds and Congressional intervention in the release of funds, are demonstrative of executive-legislative competition in the implementation phase, and determine whether or not the President can revise the budget after the budget enactment. The restrictions governing the President’s discretionary funds includes the limitation of funding to the Presidential contingent funds, and whether the President can be prevented from controlling the release of funds. Congressional intervention at the implementation level includes the condition of requiring Congressional agreement for the release of

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<sup>20</sup> The House was not able to secure a quorum for convening a meeting of the Committee on Appropriations. This is a typical example of the boycott strategy of the House.



funds. In the fourteen budget making processes that we have examined, the Congress tried to insert the restrictions over the President's discretion on eight occasions, and attempted to introduce provisions for intervention on seven occasions. All these attempts, however, were nullified by the President's partial veto. In the end, the Congress always failed to establish control over the President in the implementation process.

In sum, a typical series of events is as follows. The Congress tries to amend the President's budget proposal to increase the share of spending on local level projects,  $(1 - \pi)$ . For this purpose, the Congress attempts to reduce the amount of expenditure on servicing the national debt, and attempts to impose restrictions over the President's discretionary funds. But, the President exercises the partial veto at the final stage and restores the original distribution ratio,  $\pi$ . In the final stages, the President succeeds in enacting the budget on terms that are preferable for him. Furthermore, the President brings the budget closer to his ideal point at the implementation phase.

On the other hand, if the allocation of funds to local level projects is smaller than the House is willing to tolerate, the Congress may reject (or veto) the budget and may choose to opt for reversion (to the previous year's budget). The Congress also has the ability to impose costs on the President. These include sabotaging the session and the withdrawal of political support from the President. These latent threats by the Congress affect the degree to which the President can exercise a partial veto. In addition, the current implementation of the budget provides useful information for predicting the President's future commitment to the allocation of funding.

## V. CONCLUSION

This article has analyzed the relationship between political institutions and policy outcomes in the budget making process through focusing on the powers of institutional players, and has examined in particular the type of veto powers available to the President as well as the reversion point. Our research suggests that the power of partial veto favors the holder of veto power in the final outcomes, but that the reversion point is obtained if the total resources available at the reversion point are more than those on offer in the current budget proposal. The case of the Philippines, which we have examined in detail, supports our theoretical predictions. At the same time, we have also

obtained the important implication that the partial veto sets stricter conditions for the budget to be enacted, which is probably counter-intuitive.

As mentioned above, political institutions are not the sole determinant of policy outcomes. Nonetheless, understanding the role of the political context is a crucial prerequisite for revealing the causal mechanisms at work in the policy process.

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